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SUBJECT: TURKISH BUSINESS COMMUNITY LOOKING BEYOND GUL PRESIDENCY TO REFORM AGENDA

REF: A) Ankara 2112 and previous

ANKARA 00002139 001.2 OF 002

¶1. Both Embassy Ankara and ConGen Istanbul contributed to this report.

¶2. (SBU) Summary: The Turkish business community's reaction to FonMin Abdullah Gul's presidential candidacy has been positive but muted. In public statements, most business groups expressed support for Gul's presidency while cautioning the ruling Justice and Development Party (AKP) government to keep politics out of the process and maintain Turkey's current stable economic environment. For the most part, business viewed his candidacy as a foregone conclusion following AKP's greater than expected win in the July 22 general election. Turkey's financial markets, however, experienced sharp drops after Gul's candidacy was announced, particularly the lira, which had been stable during the July and early August global market turmoil. Since August 14, the morning after Gul's candidacy was announced, the dollar has gained 6.77% and the ISEM index has fallen 10.15%. Merrill Lynch cited increased political risk from Gul's candidacy as one reason it was downgrading Turkey's Eurobonds.
End summary.

¶3. (SBU) The Turkish business community's reaction to news that Abdullah Gul would seek the presidency was positive but muted. Most business leaders expected this announcement, given AKP's strong showing at the July 22 elections. One senior banker described Gul's quest for the presidency as "merely a scheduling matter" given AKP's numerical majority in parliament and Nationalist Action Party's (MHP) announced decision to attend the first two rounds of voting, thus guaranteeing a quorum. The business and banking community expect a second AKP term in office will see a renewed focus on microeconomic reforms aimed at making the economy more competitive.

¶4. (SBU) In the media, most Turkish business groups made statements supporting Gul's presidency but cautioning AKP to keep the position politically neutral and representative of the views of all Turks. For example, Turkish Exporters' Assembly (TIM) Chairman Oguz Satici said, "We are fully content that Abdullah Gul will continue his statesmanship in Cankaya." Satici said they did not doubt Gul's ability to guard the basic principles of the Constitution, to become a consensus-building President who has a coordinating role beyond his political identity. Confederation of Turkish Businessmen and Industrialists (TUSKON) Chairman Rizanur Meral said it would not be appropriate to look for any qualification other than competence for being President. Meral stated that TUSKON hopes that the presidential elections will not damage the stable economic environment in Turkey. The Turkish Young Businessmen's

Confederation (TUGIK) Chairman stated that the Presidential elections should not turn chaotic this time around. He added, "We receive the AKP's decision to present Gul as a candidate with respect. We hope when he comes to power, he is able to stay away from politics, he can be the President of all different sections of population, and he acts in line with the basic principles of the Constitution."

15. (SBU) Other public comments were equally positive. Independent Industrialists and Businessmen's Association (MUSIAD) Chairman Omer Bolat said Gul deserved this position, and the business world would support him as the President. Bolat also called on "certain circles" to respect the public will. MUSIAD board members told us that they are actively lobbying for labor market reforms and, given that nine MUSIAD members had been elected to parliament (all as AKP candidates), they are confident that their appeals are falling on receptive ears. Turkish Industrialists and Businessmen's Association (TUSIAD) Chairperson Arzuhan Dogan Yalcindag said Gul gave very positive messages in his speech announcing his candidacy, and TUSIAD would closely follow his steps to realize these commitments. "Our democratic ethic tells us to accept his candidacy," said Yalcindag, "we will respect the Parliament's choice and as an NGO, we will do our job to watch, warn and criticize when needed." Istanbul Chamber of Commerce (ITO) Chairman Murat Yalcintas said Gul's Presidency would strengthen the businessmen doing business abroad. Yalcintas commented that Gul's experience as Foreign Minister and his very good relations with foreign entities would work to the advantage of the Turkish business world. Finally, Turkish Union of Chambers and Commodity Exchanges (TOBB) Chairman Hisarciklioglu said TOBB believes that Gul is capable of performing up to the duties and impartial stance the presidency requires, and of representing Turkish society as a whole. Hisarciklioglu also invited every democratic citizen to respect the decision made by the Parliament.

16. (SBU) By and large, Istanbul's business community views the Gul
ANKARA 00002139 002.2 OF 002

candidacy as a foregone conclusion. Many prominent industrialists were criticized for appearing too positive in reaction to the Gul candidacy in April. This, combined with August vacations that take many business leaders out of town for most of the month, may partially explain the subdued response to Gul's candidacy. Board members of an Istanbul AmCham affiliate told visiting Senate staffers that from an economic policy perspective the AKP government "was a good thing." Foreign investors with on the ground operations tend to discount warnings of increased political tension, with one general manager of a major U.S. company noting that "society will have to get used to seeing (wealthy) covered ladies living in our neighborhoods and driving the same cars we drive."

17. (SBU) The business community is united regarding the need for microeconomic reform, particularly improving labor market flexibility, during the first six months of the AKP's second term in office. An Istanbul-based Merrill Lynch vice president noted that if, as many newspapers are predicting, former senior ML banker Mehmet Simsek is named economy minister, micro reforms would be at the top of his to-do list. A key financial sector observer noted that social security (SSK) reform will be an indication of how seriously the new government views its reform agenda. She noted SSK reform is a "will" issue. Given AKP's parliamentary majority, once President Sezer leaves office, nothing should stand in the way of passage of a reform bill. A much more skeptical financial sector observer noted that AKP's stance on senior government appointments will demonstrate whether they are truly looking beyond their political base. The party must demonstrate a willingness to promote talent regardless of political affiliation or "social background" in order to demonstrate credibility.

18. (SBU) Turkey's financial markets were hit this week by the global fallout from the U.S. sub-prime mortgage market. Earlier market-friendly announcements that the Central Bank was keeping interest rates at 17.5% and the GOT would keep spending within budget were overtaken by the worldwide revaluation of risk. Gul's re-nomination also gave already nervous investors an additional reason to sell Turkish assets. The fall was particularly noticeable

for the lira, which had been stable during the July and early August market turmoil. Since August 14, the morning after Gul's candidacy was announced, the dollar has gained 6.77% against the lira and the ISEM has fallen 10.15%. Merrill Lynch cited increased political risk from Gul's candidacy as one reason it was downgrading Turkey's Eurobonds from "overweight" to "market weight." External risks remain high because Turkey is still very dependent on foreign investment flows.

19. (SBU) Comment: Our business contacts are focused on what the new government is likely to do as far as economic reforms are concerned and appear much less interested in the political machinations surrounding the presidential elections. Whether it is because the business community is resigned to a Gul presidency or welcomes one depends on which group is speaking. However, it appears that as one banker told us almost six months ago "markets have priced in Hayrunissa Gul (Gul's headscarf-wearing wife) in Cankaya." End Comment.

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